Testimony of Mr. Edward Flynn

President of FMC Wyoming and
Chairman of the Board of the American Natural Soda Ash Corporation

On S 1144, "The Soda Ash Competition Act of 2011"

Before the Subcommittee on Public Lands and Forests
of the
Senate Energy and Natural Resources Committee

August 3, 2011

Introduction

Chairman Wyden, Ranking Member Barrasso, and Members of the Committee, we thank you for the opportunity to testify on S 1144, the Soda Ash Competition Act. The U.S. soda ash industry is an American success story. American natural soda ash is produced largely in Wyoming, and also in California. Soda ash exports are positively contributing nearly one billion dollars annually to our balance of trade and some 3,000 direct jobs. Your legislation, by maintaining the current royalty rate for soda ash produced on federal lands at two percent, will allow this important domestic industry to continue to steadily grow both exports and therefore U.S. jobs. It is precisely the sort of growth that is required if we are to realize the goals contained in President Obama's National Export Initiative.

As recently as June of this year FMC, which is the largest of the four Wyoming producers, announced the addition of significantly expanded capacity and 100 new jobs to meet growing export demands. This was our way of expressing confidence that Congress will see fit to continue its current royalty rate that encourages this jobs and export growth into the foreseeable future. The predictability offered by passage of your legislation that extends the current royalty two percent rate will enable the American natural soda ash industry to invest in further expansion that create more manufacturing jobs and more shipments from Portland Oregon and Port Arthur Texas to important new Asian and Latin American markets. Mr. Chairman, though there is no expiration date in the Soda Ash Royalty Reduction Act of 2006, some will interpret it to expire on October 12 of this year. For this reason we urge prompt enactment of your legislation, S. 1144.

Rationale for the Soda Ash Royalty Reduction Act of 2006

We believe it is important for members of the Committee to know that our domestic American natural soda ash industry continues to face substantially the same international pressure from off shore producers that led to enactment of the original Soda Ash Royalty Reduction Act of 2006. Let me briefly review, therefore, what prompted Congress to take this important action in the first place.

In the fifteen years between 1982 and 1997, our domestic soda ash industry enjoyed a steady and significant growth in exports. But after 1997 export growth slowed dramatically. By 2003 our U.S. exports were only 4% above their 1997 levels. This rapid decline in export growth resulted from a sudden and dramatic change in global competition. More significantly, in the brief span of the decade of the 1990's, China went from importing over one million tons of soda ash per year of soda ash a year to becoming a two million ton net exporter. By 2000 China had become the world's largest producer of soda ash, though hardly it's most efficient. A growing number of state owned Chinese producers making soda ash from a more energy intensive and more greenhouse gas generating synthetic process flooded international markets with low cost material aided by an export VAT rebate incentive. While these exports had a larger carbon footprint they were hurting our cleaner, more efficient American natural soda ash producers in growing markets particularly those in Asia and South America.

Faced with this state owned competition, we identified innovative ways to reduce spiraling structural costs, and the increasing prices we paid for energy and transportation. However, as our export growth slowed in the early part of the last decade we also had to reduce employment. This was not a preferred option. In this context of slowing exports and recurring restructuring initiatives early, in 2004 we asked the Congress to consider that the royalty we pay on each ton of soda ash be assessed at two percent as called for in the Minerals Leasing Act. We testified then that our low cost natural soda ash production process when allowed to compete fairly on a level playing field can beat any other producer in the world. In sum, then as now, if conditions are equal, we know we can compete with any other global producer. We can mine the vast underground trona ore reserves in Wyoming, bring this raw material above ground to be processed into soda ash, ship it by rail to Portland and Port Arthur, and deliver to any Asian port and effectively compete for our fair share of global business against the Chinese.

Results of the Current Rate

Mr. Chairman we are pleased to report that as a result of the action Congress took in 2006, our industry has experienced sustained growth driven by our ability to again grow exports. Despite a global recession and a continuing slow recovery, the American Natural Soda Ash industry added almost 100 new jobs in 2010 and expects to add 100 more in the next two years. To put this in perspective, one out of every two jobs in our U.S. soda ash industry is now the direct result of exports. During the period from 2006 to 2010, while our domestic volume declined from 6.1 million to 5.8 million tons, our export volume grew from 4.8 million to almost 6 million tons.

Our global competitiveness is a direct result of our ability to reinvest in our business made possible by the reduced royalty rate. Since passage of the act in 2006 we have reinvested in our business at rates well above those before its passage. In 2005, the year before the royalty was enacted the US soda ash industry spent some $88 million dollars in capital improvements. In 2006, the year after passage, and with the predictability of a stable two percent royalty, the US soda ash industry nearly doubled that rate of investment in our future spending $158 million dollars in expanded capacity and improvements.

Importantly, we believe there can be additional growth on the horizon with predictability in government policies that encourage investment for exports . The U.S. nameplate annual capacity for soda ash is estimated by USGS to be 15.6 million tons. The actual 2010 production was 11.7 million tons. We believe that with the current combination of federal lands and trade policies in place, we can continue this steady growth toward realizing nameplate capacity adding almost 4 million new tons of production over the next decade if not sooner. We estimate this growth in capacity could mean some 850 new jobs in Wyoming alone. My company’s recent announcement means we are already contributing 500,000 more tons of annual capacity and 100 more jobs toward these goals.

This steady industry expansion over the next decade we estimate could ultimately result in some $27 million dollars annually in additional new income tax revenues (at current rates) from both direct and indirect jobs attributable to added employment. There are other benefits to the Treasury as well from this steady expansion realized from the increase in other revenue streams from increasing property, sales, and fuel taxes. Thus while some may argue the current royalty has resulted in a $5 million loss to the Treasury between the rates we paid in 2005 (the year before the current royalty took effect) and 2010, we would argue that the growth of jobs and exports and therefore additional tax revenues more than compensates for any reduced royalty revenue. We therefore ask is it worth it to take a $5 million risk by raising the royalty we pay, when the impact on jobs creation and export growth could return us to pre 2006 levels?

Conclusion

For these reasons, Mr. Chairman, we strongly believe that enactment of your bipartisan legislation is critical to realizing the steady growth toward the full capacity of this important U.S. industry. We possess vast reserves of a raw material that allow the U.S. to produce soda ash naturally, not synthetically, and therefore offer us significant cost and environmental advantages when allowed to compete on a level global playing field. We have a committed work force including steelworkers and longshoreman that strive to maintain this low cost advantage by continually improving already safe and efficient operations. Finally, we have in place supportive trade and lands policies that seek to reduce the barriers to our international competitiveness and the impacts of state sponsored production. In short, Mr. Chairman, we have a formula for success that is working. The current royalty is an important component of that success. Why risk changing a formula that works? Your legislation recognizes the importance of continuing policies that work to grow jobs and exports. We should not risk reducing our competitiveness in a global business we should continue to lead. Thank you, Mr. Chairman for the opportunity to provide our views in support of S 1144.